

March 30, 2006

## **REPORT OF THE FINANCE COMMITTEE FOR PROPOSED 2007 FISCAL YEAR BUDGET**

By: Henry H. (Terry) Williams III - Chairman

The primary goal of the Finance Committee, Select Board, and Town Manager during the preparation of the recommended annual town budget is to ensure that any increase in Dalton's tax levy be as reasonable as possible while continuing to provide the highest level of services expected by our residents. During the fiscally challenging environment of the past three years, this has been at best difficult. However, the town is fortunate that all parties work to develop the best budget possible, and are constantly seeking areas where expenses can be reduced and revenues enhanced. The process begins with Department heads presenting the Town Manager with their initial requests as well as immediate, short and long term unbudgeted needs. These budgets are honed and refined by the Manager with Select Board input. Ultimately they are forwarded to the Finance Committee, whose oversight role remains the same: making final recommendations for town meeting action. Thus when proposals for individual line items come before our committee for review, we have been able to finalize our recommendations more readily due to confidence that effort has been made to seek only valid requests. This year after reviewing 76 budget proposals ranging in scope from \$1.00 to over \$6.0 million the Finance Committee is ready to propose a budget that fulfills the requirements of being fiscally sound while meeting the needs of our residents.

Our proposed spending plan for FY 07 recommends total appropriations to fund the combined town operating budget and school assessment of \$12,134,068, an increase of 3.1% above last year's. This modest increase has been achieved in the face of continuing uncontrollable cost escalation in certain areas such as utilities, insurances and pensions. Unfortunately, these overhead type costs comprise a greater portion of our budget and threaten to cause reductions in our core missions of education, public safety and health, as well as maintenance of our infrastructure. This is an issue that will continue to challenge all of us for the foreseeable future. On the positive side, the effects of the economic recession that resulted in a severe slump in tax revenues at the state level since 2001 have been reversed and state collections are greater than forecast. The Governor's budget plan reflects this by proposing significant increases in various local aid accounts such as Lottery and Chapter 70 education funding. Governor Romney has proposed that the so-called Lottery Cap be lifted immediately instead of phasing it in over a period of years. This would end the wrongful diversion of these receipts to the state's general fund and cause this line item to jump this year by more than 20%. Dalton's share would increase by \$234,967 or 23.5%. At the state level, Chapter 70 is proposed to go up be nearly 5%. However, the Governor wants to change the formula by which the monies are distributed to reflect changes in enrollments and to use a different wealth/income measurement. The effect on the Central Berkshire RSD will be discussed in more detail later in the report, but Dalton benefits directly as more students have enrolled in the vocational program which tuitions students out to schools offering this type of program. Dalton is targeted for a 24% jump here, increasing from \$142,474 to \$176,604. Overall, the direct state aid to Dalton would increase over \$281,000. The Governor's proposal is not definitive since the state legislature has as of yet to advance their own state budget plan. However it is thought as this is an election year and revenue growth has been so robust, they will be unlikely to modify this proposal in a material way. This state aid increase to the town returns us to the level we were at prior to FY2003. This is great news following the last three years where reductions in this revenue source caused the town to raise the property tax levy at a rate of more than 7% annually. This also allows the committee, with the advice of the

financial team, to estimate Dalton's local receipts conservatively which will allow us to generate a positive variance on a budget to actual basis and help us to maintain a minimum level of 5% of the budget in the so-called Free Cash account. Free Cash has recently been certified by DOR at \$1,873,887. We recommend that \$600,000 of this be used to reduce the increase in the tax rate and another \$500,000 be transferred into our Stabilization accounts. Along with a couple of other transfers, this will still leave the town with approximately \$700,000 remaining in Free Cash. Full approval of all of our recommendations will result in a property tax assessment increase of slightly more than \$250,000 or 3% above the FY 2006 level. The tax rate is estimated to be close to \$16.00 per thousand. This would place us approximately sixty-five thousand dollars below the adjusted Proposition 2-1/2 levy limit.

To achieve this budget proposal, the Select Board has issued instructions to level fund expense accounts where possible, while allowing for necessary uncontrollable increases and the Finance Committee agrees. The committee has also concurred with a recommendation of a 3.0% salary increase be accorded all non-bargaining town employees. Meanwhile, contract negotiations for employees subject to bargaining agreements are continuing. These include the Police, Highway, Cemetery, and the Communications departments, who continue to work under provisions of contracts that expired 6/30/05. Should any contracts be finalized prior to the annual town meeting the committee will review the agreements and make additional recommendations if warranted.

Of the 76 individual accounts committee reviewed this year, 9 are recommended to be reduced, and 17 are to remain the same. The remainder are set to escalate. While most increases are small in terms of both absolute and percentage, some specific areas of the budget that have had a notable increase are: Assessors (+11,875) due to an expected retirement in the department, there is an addition for hiring a replacement and transitioning in this new employee during FY07, which is also state required revaluation year; Town Counsel (+7,000) to more accurately reflect the true amount expended for outside legal assistance during the typical year; Elections & Registrars (+8,828) due to state and national elections scheduled for this year; Old Dalton High School (+4,500) additional repairs required to ensure the integrity of the roof until the town decides on the long term future of the building; Town Liability Insurance (+12,963) our insurer has quoted a 9% increase in this area, it is worth mentioning that our Health Insurance premium will be held level this year after absorbing a 31% increase a year ago, and more than doubling since 2000; Emergency Management (+6,852) for the purchase an automatic rapid notification system which will allow the town to contact all residents quickly in case of public emergency (note-there will be a continuing cost of approximately 1,600 annually to keep it up-to-date going forward); Capital Projects Debt Service (+42,450) this is the fourth year of a five year ongoing plan at which time the payments will become relatively equalized – this is to be paid by a transfer from Capital Stabilization and therefore would not impact taxes directly.

Accounts recommended for significant reduction in the coming are: Triennial Revaluation (-10,000) as mentioned above, this takes place in FY07, but funding and much of the expenditure has already been made; Telephone (-4,840) our system was reviewed by Verizon who suggested savings – we will now be under the state contract and using measured service which should result in significant savings; Vocational Education (-19,742) this is one of the most difficult line items to estimate as students come and go, but has increased considerably over the past few years, we currently feel that it was over-budgeted last year and can be reduced.

The largest single line in the Finance Committee recommended budget is the proposed operating assessment from the Central Berkshire Regional School District. This comprises 52% of the total FY07 Dalton operating budget. As a member of the seven-town district, the town is

given a projected assessment. This assessment is generally calculated by taking the adopted school budget, subtracting state educational and transportation aid and other miscellaneous revenues, and then dividing the balance between the member towns by a weighted formula. It is a well-documented fact that for at least the past four years this model has not been working as was intended. When the Educational Reform Act of 1993 was adopted and funded assessments were kept in check by steadily increasing state aid while requiring measurable improvement in student performance. Since the state fiscal condition went into freefall after 9/11, CBRSD saw both Chapter 70 and regional transportation aid cut to a level not seen since the late nineties. As the school district has no alternatives to make up the shortfall besides increasing assessments, the result has been a combination of unsustainable requests to the towns and tightening the budget by cutting textbooks, supplies and maintenance. Unfortunately, this approach has not been effective in reigning in cost per student because of another factor – declining enrollment. Since the mid-nineties the total number of students attending our schools has dropped by at least 15%! This has caused the cost per student to increase much faster – up 30% in the last three years. In addition these pupil losses have not been evenly spread throughout the district. Elementary schools in Becket and Cummington have far lower enrollments than Dalton's Craneville School. This means that class sizes and related costs of the elementary schools are not close to being equitable.

Under the direction of the new superintendent, Dr. Donna Harlan, who took office last July, some preliminary steps are finally being taken to address this situation. An Ad Hoc committee process was initiated late last summer, which includes broad community membership. A number of subcommittees were formed to grapple with seemingly intractable issues that have festered for many years. Progress has been made on some fronts, but much remains to be done before success can be claimed. We all need to be under no illusions that difficult decisions must be made on how to best deploy our limited resources. As encouraging as it is to see this effort undertaken - “ultimately the proof will be in the pudding”.

The proposed FY07 CBRSD operating budget, which reflects just a small portion of the efforts by this committee, is increasing 5% or \$1,075,572 to \$22,245,006. Ninety percent of this growth results from contractual increases and employee insurance escalation. The good news from a fiscal point of view is the reduction of 7.5 teaching positions through attrition, which will help restore the overall teacher to student ratio to a level seen prior to the enrollment drop. This moderates the budget increase. State aid to the district is proposed to increase 3.5%. This is less than the average state increase because the revised formula reflects our district's decrease in enrollment. Thus the average assessment will grow by more than the budget is going up – 6.5%. For Dalton the proposed increase is 6.14% or \$368,743. While we have concerns that the school request continues to be in excess of our statutory ability to raise taxes under Prop 2-1/2, the Finance Committee is supporting this unanimously because we recognize that the school committee and administration is making strides in addressing their structural problems and has constructed a reasonable proposal under the circumstances. We have made it clear we expect that there will be further progress made in FY08 to resolve the inequities described above and the school leadership is committing to make the necessary transformations.

The capital budget assessment covers our pro-rata share of debt payments on new construction and major improvements to the buildings in the school district where Dalton sends its students (Craneville, Kittredge, Nessacus, & Wahconah) and has been reduced this year by \$55,296. This is due to the declining principal and interest charges on these borrowings. The committee recommends this item at the requested level of \$256,190.

New this year is a line item called Capital Repair. Due to budget constraints our schools have not had the maintenance they require. A CBRSD Ad Hoc subcommittee, on which I serve,

recommends that repairs costing less than \$5,000 should be accounted for in CBRSD's operating budget and these repairs should be adequately funded. Our recommendations resulted in almost \$150,000 being added to CBRSD's proposed operating budget after many years of cuts. We also identified a number of extraordinary repairs or capital projects costing more than \$5,000, which also should be addressed. The projects that have been proposed will be undertaken if the towns allow the district to borrow \$352,808 to complete them. The seven towns will then pay an assessment over three years based on enrollment in the respective buildings. We are focusing on the four elementary schools and Nessacus with relatively few funds allocated to Wahconah. An ongoing "needs study" is addressing the capital needs of our high school. The Capital Repair line item funds Dalton's share of these projects. The committee recommends this proposal unanimously as we believe it is crucial to maintain our school buildings.

Lastly, observations must be made on important town projects upcoming in the near future. After years of planning and design, it is likely that a formal proposal to build a new library and senior center to be located on the property of the old Dalton High School will finally be advanced in FY07. A few years ago the town voted to appropriate \$800,000 for a senior center. Those monies remain in reserve for that purpose. In addition, Dalton has nearly reached the top of the list for a generous state library-building grant. Also, the town has set aside over one million dollars in Capital Stabilization. When the grant is released, the town will have a definitive window of time to evaluate options and decide whether to move forward on these projects. This will be a major undertaking for the town requiring the issuance of long-term debt with an annual payment that will affect taxes. Our committee will carefully weigh the potential benefits and drawbacks before rendering any recommendation to the voters.

Preparation of a successful budget is the result of many hours of hard work by all of those involved in a process that began one-half year ago. I would like to thank all the participants in this endeavor especially the town financial team, lead by Town Manager, Ken Walto and assisted by Town Accountant, Sandy Albano, and Town Treasurer, Sharon Messenger. Thanks also to Debbie Merry, the Select Board and the department heads for their work on the budget, and to each employee who execute the spending plans ultimately approved by the voters. Finally I want to commend our recording secretary, Susanne Hinkle, who continues to provide outstanding minutes of our committee work.